

Silver Market May Face Economic Headwinds in 2023

Silver Industrial Demand Projected to Achieve a New Record High This Year

(Washington, D.C. – February 8, 2023) Silver is off to a good start in 2023. The year-to-date average for 2023 (through to February 7) is more than 8 percent higher than the full year average for 2022. Silver is also expected to achieve a new high in industrial applications, the most important category in the demand complex.

However, economic and geopolitical factors, including persistent tight U.S. monetary policy and the Russian-Ukraine war, could pose challenges for the entire precious metals complex, including silver.

With that in mind, the Silver Institute offers its thoughts on the 2023 silver market, noting that Metals Focus, the distinguished global precious metals research consultancy based in London, contributed to this analysis. The firm will research and produce the Silver Institute's annual report on the international silver market, *World Silver Survey 2023*, which will be released on April 19.

Silver Demand

Having hit record highs in 2021 and 2022, silver industrial offtake is expected strengthen further by 2.6 percent y/y to 550 million ounces (Moz) in 2023. Silver industrial demand should be lifted from further gains in vehicle electrification, and governments' expanding commitment to green infrastructure. Additionally, the end of zero COVID in China supports sentiment towards industrial metals, which extends to silver.

Photovoltaic silver offtake is set to achieve a new peak this year. The Russia-Ukraine war has accelerated the deployment of renewables as governments strive to lessen their reliance on fossil fuels.

Demand in the automotive sector should benefit from rising vehicle output, the easing of the chip shortage and the growing use of electronic components and powertrain electrification. Moreover, infrastructure investment and broader decarbonization efforts are boosting electrical and hybrid vehicle demand. The expansion of charging stations which rely on silver is also on the increase.

By contrast, jewelry demand is forecast to decline by 10 percent this year, driven by the Indian market, while the rest of the world should see a modest rise. After hitting a record high in 2022, Indian jewelry demand this year is expected to ease back to more “normal” levels. In the U.S., a modest dip in consumption may occur this year due to economic concerns and normalized spending on travel. Following a surge in 2022, silverware fabrication is expected to fall by more than 20 percent this year. In line with the jewelry sector, India will account for the bulk of losses in this segment. Last year, global silver demand rose by an estimated 17 percent to a new high of 1.24 billion ounces (Boz). This year, demand is forecast to dip to 1.15 Boz. However, even at that level, it will still be the second-highest global silver demand level on record.

Silver physical investment is projected to drop by 16 percent y/y from 2022’s record-high of 352 Moz. Even so, this year’s forecast of 295 Moz would still be the third highest total on record. Western investment is expected to fall after hitting a new high in 2022, reflecting two themes. First, while there will initially be some bargain hunting as prices weaken, this will give way to outright selling as the price downtrend becomes more entrenched. Second, as prices stabilize at lower levels, the lack of volatility may encourage some retail investors to shift to alternative asset classes. Investment in India is also expected to be lower as most pent-up demand has already occurred and price expectations and movements in the rupee silver price may undermine demand.

Silver Supply

Silver supply is expected to rise by 4 percent in 2023 to a new high of 1.055 billion ounces, which will be a new high, fueled by higher mine output.

Silver mine production is expected to rise by 5 percent in 2023 to 873 Moz, the highest level since 2016. This growth will largely come from new silver mines in Mexico ramping up production alongside increased by-product output from Chile due to new gold operations there with high silver content. Production in Peru could come under pressure as civil unrest has led to the temporary suspension of several operations in Q1.

The increase in silver recycling will be more modest, with volumes likely to rise by 3 percent to a decade high. This growth will be entirely due to higher industrial recycling. All other areas are expected to record lower volumes, as reduced distress selling will lower jewelry and silverware scrap supply.

The silver market transitioned to a deficit (total supply less total demand) in 2021, for the first time in six years. In 2022, the deficit then surged to a record high of 253 Moz. This year, although the deficit is expected to decline, at a projected 119 Moz, it will still be exceptionally high.

Silver Price & Investment

Early 2023 has started with the silver price benefiting from the upside in gold and base metals, with the latter driven in part by China abandoning its zero-COVID policy. However, looking further ahead, we believe that the U.S. Fed will continue in the coming months to lift interest rates, albeit far more modestly than seen last year. While economic headwinds are anticipated to grow, the strength in the U.S. labor market does not suggest a material slowdown in economic growth. This should discourage the U.S. Fed from lowering rates too quickly, for fear of “allowing” inflation to return.

This year, we have a cautious outlook for the silver price. This is based on our view that, even if the interest rate hike pace slows, the hikes will continue through to the middle of this year, and potential rate cuts (if any) will be marginal. U.S. inflation will also ease materially due to high base effects, which will see real interest rates rise, weighing on silver and precious metals. Furthermore, the dissipation of recession fears should encourage investors to become more risk-on, to the benefit of equities over silver and gold.

At the same time, with inflation on course to ease much further this year, we expect real rates to strengthen. This, together with its impact on the dollar, could undermine silver (and gold) prices. Even so, because of the earlier price upside, we forecast silver to average \$23.00 for the full year, which would be some 6 percent higher y/y.

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The Silver Institute is the silver industry’s primary voice in expanding public awareness of silver’s essential role in today’s world. Its mandates are to provide the global market with reliable statistics and information on silver and create and execute programs that help drive silver demand. For more information on silver, including its use in the green economy, please visit www.silverinstitute.org.

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